

Arizona Department of Administration
Risk Management

A.R.S. § 41-622

	FY 2004 Actual	FY 2005 Estimate	FY 2006 Approved
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	200.0	200.0	96.0 ^{1/}
Personal Services	3,456,100	3,850,100	3,911,600
Employee Related Expenditures	953,000	1,167,700	1,247,300
Professional and Outside Services	73,600	172,500	172,500
Travel - In State	40,600	53,800	53,800
Travel - Out of State	700	13,400	13,400
Other Operating Expenditures	1,571,400	1,909,000	1,959,900
Equipment	139,400	53,600	53,600
OPERATING SUBTOTAL	6,234,800	7,220,100	7,412,100
SPECIAL LINE ITEMS			
Risk Management Losses and Premiums	41,998,700	55,945,700	43,686,700
Workers' Compensation Losses and Premiums	20,318,900	23,044,400	24,587,500
Attorney General Defense	7,322,700	7,746,700	0 ^{1/}
External Legal Services	0	0	5,085,800
Non-Legal Related Expenditures	0	0	2,877,200
PROGRAM TOTAL	75,875,100	93,956,900	83,649,300^{2/}
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Risk Management Revolving Fund	75,875,100	93,956,900	83,649,300
SUBTOTAL - Other Appropriated Funds	75,875,100	93,956,900	83,649,300
SUBTOTAL - Appropriated Funds	75,875,100	93,956,900	83,649,300
Other Non-Appropriated Funds	1,179,200	1,856,300	2,005,700
TOTAL - ALL SOURCES	77,054,300	95,813,200	85,655,000

COST CENTER DESCRIPTION — The Risk Management Division acts as the state's insurance agent, making property loss, liability, and workers' compensation payments, defending and recovering damages for the state and its employees, and directing loss prevention programs. With the exception of certain specialty and excess coverage, for which the division purchases insurance, the state is self-insured, paying for its own losses and liabilities. Costs of claims are paid through the Risk Management Fund.

PERFORMANCE MEASURES	FY 2003 Actual	FY 2004 Actual	FY 2006 Approved
• Workers' compensation incidence rates/100 FTE Positions	4.6	5.2	5.0
• Customer satisfaction with self-insurance (Scale 1-8)	6.3	6.7	6.8

^{1/} Includes a decrease of \$(7,746,700) and (104) FTE Positions funded from the Attorney General Defense Special Line Item in FY 2005. The FTE Positions and funding now appear solely in the Attorney General budget. (*See Risk Management Interagency Service Agreement Special Line Item in the Attorney General section.*)

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Fund.

Operating Budget

The budget provides \$7,412,100 from the Risk Management Fund for the operating budget in FY 2006. The approved amount includes an increase of \$192,000 from the Risk Management Fund in FY 2006 for statewide adjustments. *(Please see the Statewide Adjustments section at the end of this Appropriations Report for details.)*

Special Line Items

The budget reallocates the Risk Management Division's Special Line Items to distinguish between the state's losses, fees for private counsel, and other related expenditures. The chart below summarizes the approved line items and their purposes:

Risk Management Losses and Premiums

Liability and property settlements, medical expenses, and premiums for supplemental insurance.

Workers' Compensation Losses and Premiums

Payments to workers' compensation beneficiaries for the state's liability in workplace injuries, hospital and medical expenses, and premiums for supplemental insurance.

External Legal Services

Legal representation from outside the Office of the Attorney General in Risk Management or Workers' Compensation related lawsuits against the state.

Non-Legal Related Expenditures

Financial and actuarial analyses, investigative services, and related travel.

Additionally, the budget appropriates the *Attorney General Defense* Special Line Item directly to the Office of the Attorney General.

Risk Management Losses and Premiums

The budget provides \$43,686,700 from the Risk Management Fund for Risk Management Losses and Premiums in FY 2006. The previous General Appropriation Act referred to this line item as Risk Management Losses, Premiums, and Related Expenditures.

This line item represents estimated liability and property settlements, as well as premiums for supplemental insurance. An actuarial study annually updates the projected amount to reflect current loss exposures. This line item also includes medical expenses. However, new line items capture the costs of private counsel, investigations, and financial services, as detailed below.

External Legal Services

The approved amount includes a decrease of \$(6,000,000) from the Risk Management Fund in FY 2006 to transfer funding for private counsel to a new Special Line Item. *(See External Legal Services Special Line Item below.)*

Non-Legal Related Expenditures

The approved amount includes a decrease of \$(2,304,000) from the Risk Management Fund in FY 2006 to transfer funding for financial and actuarial analyses, investigative services, and related travel to a new Special Line Item. *(See Non-Legal Related Expenditures Special Line Item below.)*

Actuarial Estimates

The approved amount includes a decrease of \$(3,955,000) from the Risk Management Fund in FY 2006 to match actuarial estimates of risk management losses.

Workers' Compensation Losses and Premiums

The budget provides \$24,587,500 from the Risk Management Fund for Workers' Compensation Losses and Premiums in FY 2006. The previous General Appropriation Act referred to this line item as Workers' Compensation Losses, Premiums, and Related Expenditures.

This line item funds payments to workers' compensation beneficiaries for the state's liability in workplace injuries. An actuarial study annually updates the projected amount to reflect current loss exposures. This line item also includes hospital and medical expenses. However, new line items capture the costs of private counsel, investigations, and financial services, as detailed below.

External Legal Services

The approved amount includes a decrease of \$(200,000) from the Risk Management Fund in FY 2006 to transfer funding for private counsel to a new Special Line Item. *(See External Legal Services Special Line Item below.)*

Non-Legal Related Expenditures

The approved amount includes a decrease of \$(561,000) from the Risk Management Fund in FY 2006 to transfer funding for financial and actuarial analyses, investigative services, and related travel to a new Special Line Item. *(See Non-Legal Related Expenditures Special Line Item below.)*

Actuarial Estimates

The approved amount includes an increase of \$2,304,100 from the Risk Management Fund in FY 2006 to match actuarial estimates of workers' compensation losses.

Attorney General Defense

The budget includes a decrease of \$(7,746,700) and (104) FTE Positions from the Risk Management Fund in FY 2006 to transfer this line item to the Attorney General budget. *(See Risk Management Interagency Service*

Agreement Special Line Item in the Attorney General section.) This transfer will more accurately reflect the budgets of the 2 departments and avoid double-counting FTE Positions.

This line item funded the Risk Management Division's contract, with the Attorney General Insurance Defense Section, for legal representation in Risk Management related lawsuits against the state. This interagency service agreement funded 104 FTE Positions within the Office of the Attorney General. The budget reflected these FTE Positions within the Arizona Department of Administration only in FY 2005.

External Legal Services

The budget provides \$5,085,800 from the Risk Management Fund for External Legal Services in FY 2006.

This new line item funds legal representation from outside the Office of the Attorney General in Risk Management or Workers' Compensation related lawsuits against the state. The division hires private counsel in circumstances where a legal conflict of interest exists. In the past few years, the division has also sought outside counsel when staffing from the Office of the Attorney General was not available, as detailed below.

External Services Consolidation

The approved amount includes an increase of \$6,200,000 from the Risk Management Fund in FY 2006 to consolidate funding for external legal services. This amount consists of \$6,000,000 transferred from the Risk Management Losses and Premiums Special Line Item and \$200,000 transferred from the Workers' Compensation Losses and Premiums Special Line Item.

Caseload Estimates

The approved amount includes a decrease of \$(644,200) from the Risk Management Fund in FY 2006 to match legal conflict of interest caseload estimates.

Attorney General Staffing

The approved amount includes a decrease of \$(470,000) from the Risk Management Fund in FY 2006 to transfer funding for additional staff to the Office of the Attorney General and to capture savings from the resulting reduced use of private counsel. This amount consists of \$(264,700) transferred to the Risk Management Interagency Service Agreement Special Line Item of the Attorney General for 3 new FTE Positions, as well as \$(205,300) in savings to the fund. (See *Risk Management Interagency Service Agreement Special Line Item in the Attorney General section.*)

With the generally increasing prevalence of litigation, Risk Management caseloads have grown. In the past 3 fiscal years, the Office of the Attorney General was not always able to provide staffing to meet the Risk Management

Division's needs. Hence, the division had to seek private counsel, at a cost of \$1.2 million over the 3 years.

Non-Legal Related Expenditures

The budget provides \$2,877,200 from the Risk Management Fund for Non-Legal Related Expenditures in FY 2006. This new line item funds such services as financial and actuarial analyses, relevant investigations, and related travel.

Related Expenditures Consolidation

The approved amount includes an increase of \$2,865,000 from the Risk Management Fund in FY 2006 to consolidate funding for non-legal related expenditures. This amount consists of \$2,304,000 transferred from the Risk Management Losses and Premiums Special Line Item and \$561,000 transferred from the Workers' Compensation Losses and Premiums Special Line Item.

Workload Estimates

The approved amount includes an increase of \$12,200 from the Risk Management Fund in FY 2006 to match workload estimates.